



Washington State Auditor's Office

Troy Kelley

Integrity • Respect • Independence

Financial Statements Audit Report

King County Water District No. 20

For the period January 1, 2013 through December 31, 2013

Published February 26, 2015

Report No. 1013684





Washington State Auditor
Troy Kelley

February 26, 2015

Board of Commissioners
King County Water District No. 20
Burien, Washington

Report on Financial Statements

Please find attached our report on King County Water District No. 20's financial statements.

We are issuing this report in order to provide information on the District's financial condition.

Sincerely,

TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

King County Water District No. 20 January 1, 2013 through December 31, 2013

Board of Commissioners
King County Water District No. 20
Burien, Washington

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of King County Water District No. 20, King County, Washington, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 11, 2015. As discussed in Note 1 to the financial statements, during the year ended December 31, 2013, the District implemented Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

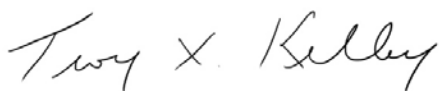
COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

PURPOSE OF THIS REPORT

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.



TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

February 11, 2015

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

King County Water District No. 20 January 1, 2013 through December 31, 2013

Board of Commissioners
King County Water District No. 20
Burien, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of King County Water District No. 20, King County, Washington, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed on page 9.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances,

but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of King County Water District No. 20, as of December 31, 2013 and 2012, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Matters of Emphasis

As discussed in Note 1 to the financial statements, in 2013, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

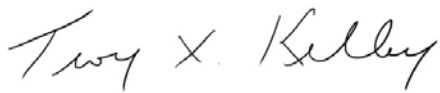
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 10 through 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated February 11, 2015 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



TROY KELLEY
STATE AUDITOR
OLYMPIA, WA

February 11, 2015

FINANCIAL SECTION

King County Water District No. 20 January 1, 2013 through December 31, 2013

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis – 2013 and 2012

BASIC FINANCIAL STATEMENTS

Statement of Net Position – 2013 and 2012

Statement of Revenues, Expenses and Changes in Fund Net Position – 2013 and 2012

Statement of Cash Flows – 2013 and 2012

Notes to Financial Statements – 2013 and 2012

WATER DISTRICT NO. 20, KING COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
December 31, 2013

As management of Water District No. 20, King County ("the District"), we offer readers of the basic financial statements this narrative overview and analysis of the District's financial activities for the fiscal year ended December 31, 2013. We encourage readers to consider the information presented here in conjunction with the financial statements and notes to the financial statements which immediately follow this discussion.

FINANCIAL STATEMENT OVERVIEW

The District's financial statements include two components: 1) the District's basic financial statements, and 2) the notes to the financial statements. This discussion and analysis are intended to serve as an introduction to the District's basic financial statements.

Condensed Financial Position Information

The statement of net position presents information concerning the District's assets, liabilities, and net position. Net position is the difference between assets and liabilities. Increases or decreases in net position may indicate, over time, if the financial position of the District is either improving or deteriorating.

The following condensed financial information provides an overview of the District's financial position as of December 31, 2013, 2012, and 2011.

STATEMENTS OF NET POSITION
December 31, 2013, 2012, and 2011

ASSETS	2013	2012	2011
Current Assets	\$ 5,636,987	\$ 5,416,753	\$ 4,854,500
Capital Assets, net	18,801,296	18,537,569	18,866,652
Total assets	<u>\$ 24,438,283</u>	<u>\$ 23,954,322</u>	<u>\$ 23,721,152</u>
LIABILITIES AND NET POSITION			
Current Liabilities	\$ 412,978	\$ 427,645	\$ 485,557
Long-Term Liabilities, less current portion	881,430	1,040,434	1,178,516
Total liabilities	1,294,408	1,468,079	1,664,073
Net Position			
Net investment in capital assets	17,945,627	17,527,142	17,701,466
Unrestricted	5,198,248	4,959,101	4,355,613
Total net position	<u>23,143,875</u>	<u>22,486,243</u>	<u>22,057,079</u>
Total liabilities and net position	<u>\$ 24,438,283</u>	<u>\$ 23,954,322</u>	<u>\$ 23,721,152</u>

Total assets increased \$0.5 million (or 2%) during 2013, due mainly to an increase in cash and cash equivalents (\$0.3 million) and net capital assets (\$0.3 million). Of the \$24.4 million in total assets, \$4.8 million (or 19%) is in cash and cash equivalents. This is comparable to December 31, 2012. Net capital assets are equivalent to 77% of total assets in 2013 and 2012.

At December 31, 2013, the District had outstanding liabilities of \$1.3 million. This is a decrease from \$1.5 million at December 31, 2012. The decrease is due to payments made on long-term liabilities.

The assets of the District exceeded its liabilities at December 31, 2013, by \$23.1 million (*net position*). Total net position increased by \$0.7 million (or 3%) from the previous year. The District's investment in capital assets (land, utility plant, machinery and equipment, and construction in progress) less any related debt is 78% of total net position in both 2013 and 2012.

At the end of 2013 and 2012, the District reported unrestricted net position of \$5.2 million and \$5.0 million, respectively. Unrestricted net position represents 22% of the District's total net position in 2013 and 2012, and is not subject to external restrictions.

Summary of Operations and Changes in Net Position

The statement of revenues, expenses, and changes in fund net position shows how the District's net position changed during the most recent fiscal year compared to the prior year. These changes are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, some revenues and expenses reported in this statement will only affect future period cash flows (e.g., uncollected receivables).

The following table summarizes the operations for fiscal years 2013, 2012, and 2011.

CHANGES IN NET POSITION
For the Years Ended December 31, 2013, 2012, and 2011

	2013	2012	2011
Operating Revenues			
Water sales	\$ 5,519,761	\$ 5,417,932	\$ 4,966,227
Other operating revenue	97,497	107,820	97,264
Total operating revenues	5,617,258	5,525,752	5,063,491
Operating Expenses			
Purchased water	2,272,015	2,329,447	1,770,464
Administrative and general	929,578	954,507	991,005
Distribution and maintenance	537,533	582,280	579,641
Depreciation	711,142	710,332	681,493
Taxes other than income taxes	309,146	313,416	293,529
Other	384,807	311,723	303,574
Total operating expenses	5,144,221	5,201,705	4,619,706
Net operating income	473,037	324,047	443,785
Nonoperating Revenues (Expenses)			
Interest income	32,784	39,086	24,503
Interest expense	(6,236)	(7,454)	(8,676)
Income before contributions	499,585	355,679	459,612
Contributions in aid of construction	158,047	73,485	132,440
Change in net position	657,632	429,164	592,052
Total net position – beginning of year	22,486,243	22,057,079	21,465,027
Total net position – end of year	<u>\$ 23,143,875</u>	<u>\$ 22,486,243</u>	<u>\$ 22,057,079</u>

Total 2013 operating revenues for the District increased \$0.1 million (or 2%) from 2012 operating revenues. This increase resulted from an increase in rates charged. Total purchased water decreased \$0.1 million (or 2%) from 2012 purchased water. Other operating expenses are comparable in 2013 and 2012. Operating income and nonoperating revenues and expenses are also comparable in 2013 and 2012. Contributions in aid of construction in 2013 increased approximately \$0.1 million (115%) from 2012 due to increased construction activity.

Notes to the Basic Financial Statements

The notes to the District's basic financial statements can be found on pages 10 – 22 of this report. These notes provide additional information that is essential to a full understanding of the basic financial statements.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The District's investment in capital assets as of December 31, 2013, amounted to \$18.8 million (net of accumulated depreciation of \$13.3 million). The District's investment in capital assets includes land; utility plant and machinery and equipment; and other assets. Investment in capital assets is comparable in 2013 and 2012 due to additions keeping pace with depreciation.

CAPITAL ASSETS, NET December 31, 2013 and 2012

	2013	2012	Change
Land	\$ 149,417	\$ 149,417	\$ -
Construction in progress	830,230		830,230
Utility plant and machinery and equipment	31,078,435	31,262,294	(183,859)
Other	22,397	22,397	
Accumulated depreciation	(13,279,183)	(12,896,539)	(382,644)
Net capital assets	<u>\$ 18,801,296</u>	<u>\$ 18,537,569</u>	<u>\$ 263,727</u>

CAPITAL ASSETS, NET December 31, 2012 and 2011

	2012	2011	Change
Land	\$ 149,417	\$ 149,417	\$ -
Construction in progress		26,936	(26,936)
Utility plant and machinery and equipment	31,262,294	30,887,974	374,320
Other	22,397	22,397	
Accumulated depreciation	(12,896,539)	(12,220,072)	(676,467)
Net capital assets	<u>\$ 18,537,569</u>	<u>\$ 18,866,652</u>	<u>\$ (329,083)</u>

Long-Term Debt

At December 31, 2013, the District had total Public Works Trust Fund Loans outstanding of \$0.9 million. Additionally, \$0.2 million is payable in long-term compensated absences. The total long-term debt of the District decreased by \$0.2 million in 2013 due mostly to payments on existing loans.

Additional information on the District's capital assets and long-term debt can be found in Notes 4 and 5 of this report.

ECONOMIC OUTLOOK

The District has the following scheduled project that could impact its financial condition. The project involves replacement of the water main, hydrants, and services in the following region:

- 1,100' in the region of 125th Street from Military Road to SR99

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the District's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the General Manager, Water District No. 20, King County, 12606 First Avenue S, Seattle, WA 98168.

WATER DISTRICT NO. 20, KING COUNTY**STATEMENTS OF NET POSITION**

December 31, 2013 and 2012

ASSETS	2013	2012
Current Assets		
Cash and cash equivalents	\$ 4,765,134	\$ 4,481,761
Accounts receivable	783,857	842,627
Materials and supplies	60,845	60,354
Prepayments and advances	25,083	29,943
Other current assets	2,068	2,068
Total current assets	5,636,987	5,416,753
Capital Assets, net	18,801,296	18,537,569
Total assets	<u>\$ 24,438,283</u>	<u>\$ 23,954,322</u>
LIABILITIES AND NET POSITION		
Current Liabilities		
Accounts payable, Maintenance Fund	\$ 232,547	\$ 249,246
Accounts payable, Construction Fund	24,167	18,494
Current portion of long-term liabilities	154,825	154,825
Other current liabilities	1,439	5,080
Total current liabilities	412,978	427,645
Long-Term Liabilities, less current portion	881,430	1,040,434
Total liabilities	1,294,408	1,468,079
Net Position		
Net investment in capital assets	17,945,627	17,527,142
Unrestricted	5,198,248	4,959,101
Total net position	23,143,875	22,486,243
Total liabilities and net position	<u>\$ 24,438,283</u>	<u>\$ 23,954,322</u>

See notes to financial statements

WATER DISTRICT NO. 20, KING COUNTY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

For the Years Ended December 31, 2013 and 2012

	2013	2012
Operating Revenues		
Water sales		
Water districts	\$ 252,061	\$ 250,663
Other customers	5,267,700	5,167,269
Penalties, fines and miscellaneous	97,497	107,820
Total operating revenues	5,617,258	5,525,752
Operating Expenses		
Purchased water	2,272,015	2,329,447
Administrative and general	929,578	954,507
Distribution and maintenance	537,533	582,280
Depreciation	711,142	710,332
Taxes other than income taxes	309,146	313,416
Meter reading and collection	90,693	81,554
Purchased electricity	294,114	230,169
Total operating expenses	5,144,221	5,201,705
Net operating income	473,037	324,047
Nonoperating Revenues (Expenses)		
Interest income	32,784	39,086
Interest expense	(6,236)	(7,454)
Income before contributions	499,585	355,679
Contributions in Aid of Construction		
Facilities charges	87,560	47,760
Meter installation	61,650	25,725
Developer extensions	8,837	
Total contributions in aid of construction	158,047	73,485
Change in net position	657,632	429,164
Net position, beginning of year	22,486,243	22,057,079
Net position, end of year	\$ 23,143,875	\$ 22,486,243

See notes to financial statements

WATER DISTRICT NO. 20, KING COUNTY

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities		
Cash received from customers	\$ 5,676,028	\$ 5,439,344
Cash paid to suppliers	(4,052,274)	(4,180,912)
Cash paid to employees	(395,349)	(359,488)
Net cash flows from operating activities	1,228,405	898,944
Cash Flows from Capital and Related Financing Activities		
Cash received in aid of construction - water meter installations and facilities charges	158,047	73,485
Acquisition and construction of capital assets	(974,869)	(381,249)
Payment on loans payable	(154,758)	(154,759)
Interest paid on loans payable	(6,236)	(7,454)
Net cash flows from capital and related financing activities	(977,816)	(469,977)
Cash Flows from Investing Activity		
Interest received on investments	32,784	39,086
Net change in cash and cash equivalents	283,373	468,053
Cash and Cash Equivalents, beginning of year	4,481,761	4,013,708
Cash and Cash Equivalents, end of year	<u>\$ 4,765,134</u>	<u>\$ 4,481,761</u>
Cash Flows from Operating Activities		
Net operating income	\$ 473,037	\$ 324,047
Adjustments to reconcile net operating income to net cash flows from operating activities:		
Depreciation	711,142	710,332
Change in operating assets and liabilities:		
Accounts receivable	58,770	(86,408)
Materials and supplies	(491)	(2,773)
Prepayments, advances, and other	4,860	(5,019)
Accounts payable and accrued compensated absences	(18,913)	(41,235)
Net cash flows from operating activities	<u>\$ 1,228,405</u>	<u>\$ 898,944</u>

See notes to financial statements

NOTES TO FINANCIAL STATEMENTS

Note 1. Organization and Summary of Significant Accounting Policies

Organization

Water District No. 20, King County ("the District") provides water service to residents and commercial users in its service area which includes portions of Burien, SeaTac, Tukwila, and unincorporated King County, Washington. The District also operates a reservoir which is shared with two other districts. Water sold by the District is purchased from the City of Seattle. As a governmental entity, the District is not subject to federal income tax.

Reporting Entity

The District is a municipal corporation governed by an elected three-member board. As required by accounting principles generally accepted in the United States, management has considered all potential component units in defining the reporting entity. The District has no component units.

Basis of Accounting and Presentation

The accounting records of the District are maintained in accordance with methods prescribed by the Washington State Auditor under the authority of Chapter 43.09 of the Revised Code of Washington ("RCW"). The District uses the Uniform System of Accounts for Class A & B Water and Sewer Utilities as prescribed by the National Association of Regulatory Utility Commissioners, which does not differ materially from accounting principles generally accepted in the United States. The District uses the accrual basis of accounting where revenues are recognized when earned and expenses are recognized when incurred.

The District distinguishes operating revenues and expenses from nonoperating activities. Operating revenues and expenses generally result from providing water services. The District's principal operating revenues are charges to customers for water. Operating expenses for the District include the cost of water purchased, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Accounts Receivable

Accounts receivable are due from water customers and are reported at their principal amounts, less any allowance for accounts that may be uncollectible. Management reviews receivable balances regularly to determine if an allowance is necessary. No allowance was considered necessary at December 31, 2013 and 2012. If an account receivable was written off, it would be written off against the allowance. Accounts receivable are considered past due when payments are not made within 30 days after billing.

Capital Assets

Capital assets are defined by the District as assets with initial individual cost of more than \$1,000 and an estimated useful life in excess of 3 years.

Utility plant in service and other fixed assets are recorded at cost. Donations of capital assets by developers and customers ("contributions in aid of construction") are recorded at the donor's cost.

Depreciation is computed using the straight-line method. Transmission and distribution mains, the reservoir, and hydrants are depreciated at 2% per year, and service and meter installations at 3-1/3% per year. All other assets are depreciated over the estimated useful life of the respective asset. City meters and land are not depreciated.

Materials and Supplies

Materials and supplies are stated at the lower of cost (specific identification method) or market.

Compensated Absences

Compensated absences are absences for which employees will be paid, such as vacation and sick leave. The District records unpaid leave for compensated absences as an expense and liability when earned. Vacation pay may be accumulated to a maximum of 20 to 50 days depending on the length of service. Sick leave vests over the period of employment (100% vesting after 20 years) and may accumulate to a maximum of 120 days. Unused vacation and vested sick leave is payable upon resignation, retirement or death.

Deferred Inflows/Outflows of Resources

Deferred outflows of resources represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources until then. Deferred inflows of resources represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources until that time. For the years ended December 31, 2013 and 2012, the District had no deferred outflows or inflows of resources and so there are none presented.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

Note 2. Statements of Cash Flows

	<u>2013</u>	<u>2012</u>
Cash and cash equivalents, per the Statements of Cash Flows consists of:		
Advance travel fund and main checking account (held in checking account)	\$ 8,000	\$ 8,000
Revolving and change funds	3,370	2,600
Maintenance fund invested in the Pool (see Note 3)	4,748,185	4,465,259
Maintenance fund invested in the Impaired Pool (see Note 3)	<u>5,579</u>	<u>5,902</u>
Total cash and cash equivalents	<u><u>\$ 4,765,134</u></u>	<u><u>\$ 4,481,761</u></u>

For purposes of the Statements of Cash Flows, the District considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

The checking account balances are insured by the Federal Deposit Insurance Corporation.

Note 3. Investments in King County Finance Division Pool

The District has entered into an investment pool ("the Pool") agreement with the King County Finance Division. Under this agreement, the District advances funds to the King County Finance Division. These funds are pooled with other funds and are commonly invested. The District accounts for its investment in the Pool at amortized cost, which usually approximates fair value. Investment income is allocated to the District in proportion to its average balance in the Pool. District deposits are covered by the Federal Deposit Insurance Corporation or by collateral held in a multiple financial institution collateral pool administered by the Washington Public Deposit Protection Commission.

As of December 31, 2013, the District had the following invested in the Pool:

Investment Type	Amortized Cost (as adjusted)	Fair Value	Effective Duration
Maintenance Fund	\$ 4,748,185	\$ 4,739,163	1.23 Years

As of December 31, 2012, the District had the following invested in the Pool:

Investment Type	Amortized Cost (as adjusted)	Fair Value	Effective Duration
Maintenance Fund	\$ 4,465,259	\$ 4,478,655	1.36 Years

Impaired Investments: As of September 1, 2008, impaired commercial paper assets were removed from the primary King County Investment Pool and placed into an impaired investment pool ("the Impaired Pool"). As of December 31, 2013, all impaired commercial paper investments have completed enforcement events. The Impaired Pool holds one commercial paper asset where the Impaired Pool accepted an exchange offer and is receiving the cash flows from the investment's underlying securities; and the residual investments in three commercial paper assets that were part of completed enforcement events, where the Impaired Pool accepted the cash out option. The District's share of the Impaired Pool (which is included in cash balances at fair value) is as follows as of December 31, 2013 and 2012:

	2013	2012
Principal (maximum risk of loss)	\$ 9,419	\$ 12,026
Unrealized loss	(3,840)	(6,124)
Fair value	<u>\$ 5,579</u>	<u>\$ 5,902</u>

Interest Rate Risk: As of December 31, 2013 and 2012, the Pool's average duration was 1.23 and 1.36 years, respectively. As a means of limiting its exposure to rising interest rates, securities purchased in the Pool must have a final maturity, or weighted average life, no longer than five years.

While the Pool's market value is calculated on a monthly basis, unrealized gains and losses are not distributed to participants. The Pool distributes earnings monthly using an amortized cost methodology.

Credit Risk: As of December 31, 2013 and 2012, the District's investment in the Pool was not rated by a nationally recognized statistical rating organization (NRSRO). In compliance with state statutes, Pool policies authorize investments in U.S. Treasury securities, U.S. agency securities and mortgage-backed securities, municipal securities (rated at least "A" by two NRSROs), commercial paper (rated at least the equivalent of "A-1" by two NRSROs), certificates of deposit issued by qualified public depositories, repurchase agreements, and the Local Government Investment Pool managed by the Washington State Treasurer's office.

All amounts administered by the King County Finance Division are restricted for payment of maintenance and other operating costs and/or construction costs.

Note 4. Capital Assets

Capital assets activity for the year ended December 31, 2013, was as follows:

	2012	Increase	Decrease	Transfers	2013
Utility plant not being depreciated					
Land	\$ 149,417	\$ -	\$ -	\$ -	\$ 149,417
City meters	21,862				21,862
Franchise	535				535
Construction in progress		843,876		(13,646)	830,230
Total utility plant not being depreciated	171,814	843,876		(13,646)	1,002,044
Utility plant and machinery and equipment being depreciated					
Water main replacement	3,031,767				3,031,767
Reservoir and facilities	2,699,935				2,699,935
Transmission and distribution mains	19,399,337	9,850		13,646	19,422,833
Services	2,621,111	29,990			2,651,101
Meter installations	543,487	14,057	(18,974)		538,570
Hydrants	1,477,261	186			1,477,447
General office building and improvements	509,558	2,168	(20,685)		491,041
Office equipment and furniture	366,938	1,489	(181,519)		186,908
Machinery and equipment	179,654	73,253	(19,759)		233,148
Transportation equipment	433,246		(87,561)		345,685
Total utility plant and machinery and equipment being depreciated	31,262,294	130,993	(328,498)	13,646	31,078,435
Less accumulated depreciation for:					
Water main replacement	937,846	60,635			998,481
Reservoir and facilities	1,448,038	52,861			1,500,899
Transmission and distribution mains	6,616,648	388,457			7,005,105
Services	1,743,230	88,282			1,831,512
Meter installations	300,041	17,934	(18,974)		299,001
Hydrants	634,275	29,549			663,824
General office building and improvements	392,540	17,749	(20,685)		389,604
Office equipment and furniture	352,286	5,293	(181,519)		176,060
Machinery and equipment	161,971	5,783	(19,759)		147,995
Transportation equipment	309,664	44,599	(87,561)		266,702
Total accumulated depreciation	12,896,539	711,142	(328,498)		13,279,183
Total utility plant and machinery and equipment being depreciated, net	18,365,755	(580,149)		13,646	17,799,252
Total capital assets	\$ 18,537,569	\$ 263,727	\$ -	\$ -	\$ 18,801,296

Capital assets activity for the year ended December 31, 2012, was as follows:

	2011	Increase	Decrease	Transfers	2012
Utility plant not being depreciated					
Land	\$ 149,417	\$ -	\$ -	\$ -	\$ 149,417
City meters	21,862				21,862
Franchise	535				535
Construction in progress	26,936	330,964		(357,900)	
Total utility plant not being depreciated	198,750	330,964		(357,900)	171,814
Utility plant and machinery and equipment being depreciated					
Water main replacement	3,031,767				3,031,767
Reservoir and facilities	2,699,935				2,699,935
Transmission and distribution mains	19,041,437			357,900	19,399,337
Services	2,614,608	6,503			2,621,111
Meter installations	550,707	6,375	(13,595)		543,487
Hydrants	1,477,261				1,477,261
General office building and improvements	509,558				509,558
Office equipment and furniture	361,605	5,333			366,938
Machinery and equipment	173,048	6,606			179,654
Transportation equipment	428,048	25,468	(20,270)		433,246
Total utility plant and machinery and equipment being depreciated	30,887,974	50,285	(33,865)	357,900	31,262,294
Less accumulated depreciation for:					
Water main replacement	877,211	60,635			937,846
Reservoir and facilities	1,393,114	54,924			1,448,038
Transmission and distribution mains	6,228,661	387,987			6,616,648
Services	1,655,947	87,283			1,743,230
Meter installations	295,538	18,098	(13,595)		300,041
Hydrants	604,730	29,545			634,275
General office building and improvements	373,669	18,871			392,540
Office equipment and furniture	344,547	7,739			352,286
Machinery and equipment	160,172	1,799			161,971
Transportation equipment	286,483	43,451	(20,270)		309,664
Total accumulated depreciation	12,220,072	710,332	(33,865)		12,896,539
Total utility plant and machinery and equipment being depreciated, net	18,667,902	(660,047)		357,900	18,365,755
Total capital assets	\$ 18,866,652	\$ (329,083)	\$ -	\$ -	\$ 18,537,569

Note 5. Long-Term Liabilities

Long-term liability activity for the year ended December 31, 2013, was as follows:

	2012	Additions	Reductions	2013	Amounts Due Within One Year
Loans Payable:					
1996 Public Works Trust Fund Loan	\$ 358,105	\$ -	\$ 89,526	\$ 268,579	\$ 89,525
2002 Public Works Trust Fund Loan	652,322		65,232	587,090	65,300
Total loans payable	1,010,427		154,758	855,669	154,825
Compensated Absences	184,832		4,246	180,586	
Long-Term Liabilities	<u>\$ 1,195,259</u>	<u>\$ -</u>	<u>\$ 159,004</u>	<u>\$ 1,036,255</u>	<u>\$ 154,825</u>

Long-term liability activity for the year ended December 31, 2012, was as follows:

	2011	Additions	Reductions	2012	Amounts Due Within One Year
Loans Payable:					
1996 Public Works Trust Fund Loan	\$ 447,632	\$ -	\$ 89,527	\$ 358,105	\$ 89,525
2002 Public Works Trust Fund Loan	717,554		65,232	652,322	65,300
Total loans payable	1,165,186		154,759	1,010,427	154,825
Compensated Absences	168,155	16,677		184,832	
Long-Term Liabilities	<u>\$ 1,333,341</u>	<u>\$ 16,677</u>	<u>\$ 154,759</u>	<u>\$ 1,195,259</u>	<u>\$ 154,825</u>

Loans payable at December 31, 2013 and 2012, are comprised of the following revenue obligation loans:

	2013	2012
1996 Public Works Trust Fund loan, due in annual installments of \$89,525, plus interest at 1% through July 1, 2016	\$ 268,579	\$ 358,105
2002 Public Works Trust Fund loan, due in annual installments of \$65,300, plus interest at 0.5% through July 1, 2022	587,090	652,322
	<u>\$ 855,669</u>	<u>\$ 1,010,427</u>

The debt service annual requirements to amortize loans payable outstanding as of December 31, 2013, are as follows:

Year Ending December 31	Principal	Interest	Total
2014	\$ 154,825	\$ 5,625	\$ 160,450
2015	154,825	4,403	159,228
2016	154,832	3,164	157,996
2017	65,300	1,959	67,259
2018	65,300	1,633	66,933
2019-2022	260,587	3,265	263,852
	<u>\$ 855,669</u>	<u>\$ 20,049</u>	<u>\$ 875,718</u>

Note 6. Reservoir Sharing

The District owns and operates a six million gallon reservoir jointly with two other water districts. This reservoir was constructed in 1976. Although other water districts contributed over \$500,000 to the cost of the reservoir, the full cost is reported by the District and depreciation is taken on that amount. The contributions from other water districts have been recorded as increases in net assets. By agreement, the operating costs of the reservoir are borne by the District and charged out to the members based upon the previous year's water consumption. Costs allocated to the other districts amounted to \$28,486 and \$28,979 in 2013 and 2012, respectively.

Note 7. Risk Management

The District is subject to various risks including, but not limited to, damage to personal and real property, general liability, automobile liability, employment liability, theft, public officials' errors and omissions, and natural disasters.

The District protects itself against these risks by the purchase of commercial insurance. The policies are subject to various limits and various deductibles. The policies involve various insurance companies and are obtained through MacIlvennie Associates, Inc. during 2013 and 2012. Detailed information about coverages, premiums, and deductibles is available at the District's office.

Note 8. Pension Plan

Substantially all District full-time and qualifying part-time employees participate in one of the following statewide retirement systems administered by the Washington State Department of Retirement Systems, under cost-sharing multiple-employer public employee defined benefit retirement plans. The Department of Retirement Systems (DRS), a department within the primary government of the State of Washington, issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for each plan. The DRS CAFR may be obtained by writing to: Department of Retirement Systems, Communications Unit, P.O. Box 48380, Olympia, WA 98504-8380; or it may be downloaded from the DRS website at www.drs.wa.gov. The following disclosures are made pursuant to GASB Statements 27, Accounting for Pensions by State and Local Government Employers and 50, Pension Disclosures, an Amendment of GASB Statements 25 and 27.

Public Employees' Retirement System ("PERS") Plans 1, 2, and 3

Plan Description

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior courts; employees of legislative committees; employees of district and municipal courts; and employees of local governments. Membership also includes higher education employees not participating in higher education retirement programs. Approximately 49 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in Chapters 41.34 and 41.40 RCW and may be amended only by the State Legislature.

PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a defined benefit plan with a defined contribution component.

PERS members who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. PERS members joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or Plan 3. The option must be exercised within 90 days of employment. Employees who fail to choose within 90 days default to Plan 3.

PERS is comprised of and reported as three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members, and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS Plan 1 and Plan 2 retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by the Director of DRS. During DRS' Fiscal Year 2013, the rate was five and one-half percent compounded quarterly. Members in PERS Plan 1 and Plan 2 can elect to withdraw total employee contributions and interest thereon, in lieu of any retirement benefit, upon separation from PERS-covered employment.

PERS Plan 1 members are vested after the completion of five years of eligible service.

PERS Plan 1 members are eligible for retirement from active status at any age with at least 30 years of service, at age 55 with 25 years of service, or at age 60 with at least 5 years of service. Plan 1 members retiring from inactive status prior to the age of 65 may receive actuarially reduced benefits.

The monthly benefit is 2 percent of the average final compensation (AFC) per year of service, but the benefit may not exceed 60 percent of the AFC. The AFC is the monthly average of the 24 consecutive highest-paid service credit months.

PERS Plan 1 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

Plan 1 members may elect to receive an optional COLA that provides an automatic annual adjustment based on the Consumer Price Index. The adjustment is capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity. The benefit amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any workers' compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60, at which time the benefit is converted to the member's service retirement amount.

A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the benefit amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC and is actuarially reduced to reflect the choice of a survivor option. Plan 1 members may elect to receive an optional COLA amount (based on the Consumer Price Index), capped at 3 percent annually. To offset the cost of this annual adjustment, the benefit is reduced.

PERS Plan 2 members are vested after the completion of five years of eligible service. Plan 2 members are eligible for normal retirement at the age of 65 with five years of service. The monthly benefit is 2 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit; and a cost-of-living allowance is granted (based on the Consumer Price Index), capped at 3 percent annually.

PERS Plan 2 members who have at least 20 years of service credit, and are 55 years of age or older, are eligible for early retirement with a reduced benefit. The benefit is reduced by an early retirement factor (ERF) that varies according to age, for each year before age 65.

PERS Plan 2 members who have 30 or more years of service credit and are at least 55 years old can retire under one of two provisions, if hired prior to May 1, 2013:

- With a benefit that is reduced by 3 percent for each year before age 65; or
- With a benefit that has a smaller (or no) reduction (depending on age) that imposes stricter return-to-work rules.

PERS Plan 2 members hired on or after May 1, 2013 have the option to retire early by accepting a reduction of 5 percent for each year of retirement before age 65. This option is available only to those who are age 55 or older and have at least 30 years of service.

PERS Plan 2 retirement benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component and member contributions finance a defined contribution component. As established by Chapter 41.34 RCW, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries, based on member choice. Members who do not choose a contribution rate default to a 5 percent rate. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

PERS Plan 3 defined contribution retirement benefits are dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions. Any expenses incurred in conjunction with self-directed investments are paid by members. Absent a member's self-direction, PERS Plan 3 contributions are invested in the Retirement Strategy Fund that assumes the member will retire at age 65.

For DRS' Fiscal Year 2013, PERS Plan 3 employee contributions were \$99.0 million, and plan refunds paid out were \$69.4 million.

The defined benefit portion of PERS Plan 3 provides members a monthly benefit that is 1 percent of the AFC per year of service. The AFC is the monthly average of the 60 consecutive highest-paid service months. There is no cap on years of service credit, and Plan 3 provides the same cost-of-living allowance as Plan 2.

Effective June 7, 2006, PERS Plan 3 members are vested in the defined benefit portion of their plan after ten years of service; or after five years of service, if twelve months of that service are earned after age 44; or after five service credit years earned in PERS Plan 2 by June 1, 2003. Plan 3 members are immediately vested in the defined contribution portion of their plan.

Vested Plan 3 members are eligible for normal retirement at age 65, or they may retire early with the following conditions and benefits:

- If they have at least ten service credit years and are 55 years old, the benefit is reduced by an ERF that varies with age, for each year before age 65.
- If they have 30 service credit years and are at least 55 years old, and were hired before May 1, 2013, they have the choice of a benefit that is reduced by 3 percent for each year before age 65; or a benefit with a smaller (or no) reduction factor (depending on age) that imposes stricter return-to-work rules.
- If they have 30 service credit years, are at least 55 years old, and were hired after May 1, 2013, they have the option to retire early by accepting a reduction of 5 percent for each year before age 65.

PERS Plan 3 benefits are actuarially reduced to reflect the choice, if made, of a survivor option.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 monthly benefit amount is 2 percent of the AFC per year of service. For Plan 3, the monthly benefit amount is 1 percent of the AFC per year of service. These disability benefit amounts are actuarially reduced for each year that the member's age is less than 65, and to

reflect the choice of a survivor option. There is no cap on years of service credit, and a cost-of-living allowance is granted (based on the Consumer Price Index) capped at 3 percent annually.

PERS members meeting specific eligibility requirements have options available to enhance their retirement benefits. Some of these options are available to their survivors.

A one-time duty-related death benefit is provided to the beneficiary or the estate of a PERS member who dies as a result of injuries sustained in the course of employment, or if the death resulted from an occupational disease or infection that arose naturally and proximately out of the member's covered employment, if found eligible by the Department of Labor and Industries.

From January 1, 2007 through December 31, 2007, judicial members of PERS were given the choice to elect participation in the Judicial Benefit Multiplier (JBM) Program enacted in 2006. Justices and judges in PERS Plan 1 and Plan 2 were able to make an irrevocable election to pay increased contributions that would fund a retirement benefit with a 3.5 percent multiplier. The benefit would be capped at 75 percent of AFC. Judges in PERS Plan 3 could elect a 1.6 percent of pay per year of service benefit, capped at 37.5 percent of AFC.

Newly elected or appointed justices and judges who chose to become PERS members on or after January 1, 2007, or who had not previously opted into PERS membership, were required to participate in the JBM Program.

There are 1,176 participating employers in PERS. Membership in PERS consisted of the following as of the latest actuarial valuation date for the plans of June 30, 2012:

Retirees and Beneficiaries Receiving Benefits	82,242
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	30,515
Active Plan Members Vested	106,317
Active Plan Members Nonvested	44,273
	<hr/>
Total	263,347
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Funding Policy

Each biennium, the state Pension Funding Council adopts PERS Plan 1 employer contribution rates, PERS Plan 2 employer and employee contribution rates, and PERS Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for state agencies and local government unit employees, and at 7.5 percent for state government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. Under PERS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Plan 3 employee contribution rates range from 5 percent to 15 percent.

As a result of the implementation of the Judicial Benefit Multiplier Program in January 2007, a second tier of employer and employee rates was developed to fund, along with investment earnings, the increased retirement benefits of those justices and judges that participate in the program.

The methods used to determine the contribution requirements are established under state statute in accordance with Chapters 41.40 and 41.45 RCW.

The required contribution rates expressed as a percentage of current year covered payroll, as of December 31, 2013, were:

	PERS Plan 1	PERS Plan 2	PERS Plan 3
Employer*	9.21%**	9.21%**	9.21%***
Employee	6.00%****	4.92%****	*****

* The employer rates include the employer administrative expense fee currently set at 0.18%.

** The employer rate for state elected officials is 13.73% for Plan 1 and 9.21% for Plan 2 and Plan 3.

*** Plan 3 defined benefit portion only.

**** The employee rate for state elected officials is 7.50% for Plan 1 and 4.92% for Plan 2.

***** Variable from 5.0% minimum to 15.0% maximum based on rate selected by the PERS 3 member.

Both the District and the employees made the required contributions. All current employees are registered in PERS Plan 2. The District's required contributions for the years ended December 31 were as follows:

2013	\$	68,074
2012		58,466
2011		48,306

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

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